

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Elsie Area Fire Association	County Clinton
Fiscal Year End March 31, 2006	Opinion Date June 23, 2006	Date Audit Report Submitted to State September 15, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 	Printed Name Steven R. Kirinovic, CPA		License Number 1101022020

**Elsie Area Fire Association
Elsie, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Elsie Area Fire Association

Elsie, Michigan

March 31, 2006

BOARD MEMBERS

Mr. Kam Washburn	Chair
Mr. Lonnie McCullough	Co-Chair
Mr. Clyde Gilbert	Secretary/Treasurer
Mr. Robb Maynard	Board Member
Mr. Don Taylor	Board Member

Elsie Area Fire Association

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Elsie
Area Fire Association
Elsie, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Elsie Area Fire Association as of and for the year ended March 31, 2006, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the governmental activities and the major fund of the Elsie Area Fire Association as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 23, 2006

The following is a discussion and analysis of the Elsie Area Fire Association's (the Association's) financial performance and position, providing an overview of the activities for the year ended March 31, 2006. This analysis should be read in conjunction with the Independent Auditors Report and with the Association's financial statements, which follow this section. 2006 represents the second year the Association has reported under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended by GASB Statement No. 37 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus and Statement No. 38 Certain Financial Statement Note Disclosures. This discussion and analysis provides comparisons with the previous year.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- The assets of the Association exceeded its liabilities at the close of the most recent year by \$146,321 (net assets).
- The Authority's total net assets increased by \$13,692, as the result of current year activity.
- The Operating Fund finished the 2006 year with an increase to fund balance of \$8,015.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Elsie Area Fire Association as a whole and present a longer-term view of the Association's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the citizens have funded the full cost of providing public safety services.

The fund financial statements present a short-term view; they tell us how the citizens' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Elsie Area Fire Association in more detail than the government-wide financial statements by providing information about the Association's governmental fund.

The Association as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2006 and March 31, 2005.

	March 31,	
	2006	2005
Assets		
Current assets	\$ 8,066	\$ 2,570
Capital assets	<u>247,986</u>	<u>259,446</u>
Total assets	256,052	262,016
Liabilities		
Current liabilities	20,089	27,169
Noncurrent liabilities	<u>89,642</u>	<u>102,218</u>
Total liabilities	<u>109,731</u>	<u>129,387</u>

Elsie Area Fire Association

Management's Discussion and Analysis

Net Assets

Invested in capital assets, net of related debt	\$ 145,767	\$ 140,747
Unrestricted	<u>554</u>	<u>(8,118)</u>
Total net assets	<u>\$ 146,321</u>	<u>\$ 132,629</u>

The Association's total net assets were \$146,321 at March 31, 2006. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$554 at the end of the year. The net assets invested in capital assets were at \$145,767.

The following table shows the changes in net assets for the year ended March 31, 2006 and March 31, 2005.

	March 31, <u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for services	\$ 95,189	\$ 77,389
Operating grants	18,000	-
General revenue:		
Investment earnings	21	30
Other	<u>1,655</u>	<u>7,636</u>
Total revenue	114,865	85,055
Program Expenses		
Public safety	95,707	85,237
Interest on long-term debt	<u>5,466</u>	<u>7,072</u>
Total expenses	<u>101,173</u>	<u>92,309</u>
Change in Net Assets	<u>\$ 13,692</u>	<u>\$ (7,254)</u>

Governmental Activities

The Association's governmental revenues totaled \$114,865 with the greatest revenue sources being charges for services. Charges for services make up approximately 83 percent of total governmental revenue.

The Association incurred expenses of \$101,173 during the year. The majority of the governmental expenses incurred are associated with the public safety function.

The Association's Funds

The analysis of the Association's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual fund, not the Elsie Area Fire Association as a whole. The Association's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Association's only fund for the fiscal year ended March 31, 2006 was the Operating (Special Revenue) Fund.

The Operating Fund pays for all of the Association's governmental services. The sole service provided during the fiscal year was fire protection, which incurred current and capital outlay expenditures of approximately \$84,247 for the fiscal year. The Association also incurred expenditures of \$22,603 for the purposes of retirement of debt related to fire protection equipment.

Operating Fund Budgetary Highlights

The Association collected revenues of \$23,376 more than originally anticipated. The Association also expended \$21,757 more than originally anticipated. These factors combined resulted in the Association ending the year with a fund balance that was \$1,619 more than budgeted. The Association ended the year with a fund balance of \$5,183.

Capital Assets and Debt Administration

At the end of the fiscal year, the Association had \$247,986 invested in fire service vehicles and equipment (net of accumulated depreciation).

The Association issued no new debt during the year. At year-end the Association had remaining debt outstanding on a capital lease. The balance, \$102,219, was the only long-term debt outstanding and is due and payable through 2013. The fiscal year 2007 principal payment of \$12,577 is considered a current liability in the audited financial statements and the remaining balance of \$89,642 is considered noncurrent.

Contacting the Association's Management

This financial report is intended to provide our citizens, customers, and investors with a general overview of the Association's finances and demonstrate the Association's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Elsie Area Fire Association Treasurer at 989-723-6368.

BASIC FINANCIAL STATEMENTS

Elsie Area Fire Association

STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 4,066
Accounts receivable	<u>4,000</u>
	8,066
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>247,986</u>
TOTAL ASSETS	256,052
LIABILITIES	
Current liabilities	
Accounts payable	1,240
Accrued liabilities	1,643
Accrued interest payable	4,629
Current portion of long-term debt	<u>12,577</u>
TOTAL CURRENT LIABILITIES	20,089
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>89,642</u>
TOTAL LIABILITIES	<u>109,731</u>
NET ASSETS	
Invested in capital assets, net of related debt	145,767
Unrestricted	<u>554</u>
TOTAL NET ASSETS	<u>\$ 146,321</u>

See accompanying notes to financial statements.

Elsie Area Fire Association
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants	Governmental Activities
Governmental activities				
Public Safety	\$ 95,707	\$ 95,189	\$ 18,000	\$ 17,482
Interest on long-term debt	5,466	-	-	(5,466)
Total	<u>\$ 101,173</u>	<u>\$ 95,189</u>	<u>\$ 18,000</u>	12,016
General revenues				
Investment earnings				21
Other				<u>1,655</u>
Total general revenues				<u>1,676</u>
Change in net assets				13,692
Restated net assets, beginning of year				<u>132,629</u>
Net assets, end of year				<u>\$ 146,321</u>

See accompanying notes to financial statements.

Elsie Area Fire Association

GOVERNMENTAL FUND BALANCE SHEET

March 31, 2006

ASSETS

Cash	\$	4,066
Accounts Recievable		<u>4,000</u>
TOTAL ASSETS	\$	<u><u>8,066</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	1,240
Accrued liabilities		<u>1,643</u>
TOTAL LIABILITIES		2,883

FUND BALANCE

Unreserved - undesignated		<u>5,183</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>8,066</u></u>

See accompanying notes to financial statements.

Elsie Area Fire Association

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Fund balance - governmental fund	\$ 5,183
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Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 608,593	
Accumulated depreciation is	<u>(360,607)</u>	
		247,986

Long-term liabilities are not due and payable in the current period and therefore
are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Accrued interest payable	(4,629)	
Capital leases payable	<u>(102,219)</u>	<u>(106,848)</u>

Net assets of governmental activities	<u><u>\$ 146,321.</u></u>
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See accompanying notes to financial statements.

Elsie Area Fire Association

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended March 31, 2006

REVENUES

Charges for services	\$ 95,189
Intergovernmental - State	18,000
Interest	21
Other	<u>1,655</u>

TOTAL REVENUES	114,865
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EXPENDITURES

Current	
Public Safety	
Salaries	25,041
Fringe benefits	1,881
Fuel	2,502
Dues and fees	250
Telephone	1,013
Insurance	10,835
Repairs and maintenance	6,981
Other	4,756
Contractual payments	15,650
Capital outlay	15,338
Debt Service	
Principal	16,480
Interest	<u>6,123</u>

TOTAL EXPENDITURES	<u>106,850</u>
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EXCESS OF REVENUES OVER EXPENDITURES	8,015
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Fund deficit, beginning of year	<u>(2,832)</u>
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Fund balance, end of year	<u><u>\$ 5,183</u></u>
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See accompanying notes to financial statements.

Elsie Area Fire Association

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

March 31, 2006

Net change in fund balance - governmental fund **\$ 8,015**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	13,793	
Depreciation expense	<u>(25,253)</u>	
		(11,460)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Capital lease principal retirement	16,480
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>657</u>
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Change in net assets of governmental activities	<u><u>\$ 13,692</u></u>
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See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF ASSOCIATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Elsie Area Fire Association was created in 1999 by a joint venture agreement between the Townships of Duplain, Chapin, Fairfield, and the Village of Elsie. Each participating unit appoints one (1) representative and the Fire Association appoints one (1) member at large to serve on the committee of the Association. The Fire Chief oversees the day-to-day operations of the Fire Association.

The Association has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

Each entity is responsible to pay annually to the Fire Association a per capita charge among all members except the Village of Elsie, which contributes as its per capita share the lease provisions and expenses together with liability insurance on the operations of the Association and its equipment. Other responsibilities including insurance coverages and procedures for termination of services are explicitly detailed in the joint venture agreement. The Association also bills and collects fees from participating municipalities for providing fire protection services.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Elsie Area Fire Association. The Association has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Elsie Area Fire Association contain all the funds controlled by the Association Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Association as a whole.

The statement of activities presents the direct functional expenses of the Association and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Association.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Association's individual major fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major fund of the Association is:

- a. Special Revenue Fund - This fund is used to account for all financial resources to be used for fire protection services provided to each participating municipality.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include charges for services and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

The Special Revenue (Operating) Fund budget shown in the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a fund level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Board.
- b. Formal budgetary integration is employed as a management control device during the year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- c. The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Board during the year. No amendments were made during the year.

6. Cash

Cash consists of checking and savings accounts.

7. Capital Assets

Capital assets include vehicles and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. All assets with a useful life exceeding one (1) year are recorded as capital assets. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	20 years
Equipment	5 - 20 years

The Association has no assets that would be classified as infrastructure assets.

8. Comparative Data

Comparative data for the prior year has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Elsie Area Fire Association is authorized to invest in the following investment vehicles:

- 1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- 2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. As of March 31, 2006, the carrying amount of the Association's deposits was \$ 4,066 and the bank balance was \$ 7,625. As of March 31, 2006, the Association's accounts were fully insured by the FDIC for \$ 7,625.

Due to significantly higher cash flows at certain periods during the year, the amount the Association held as cash increased significantly. As a result, the amount of the uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2006, the Association did not have any investments that would be subject to rating.

Interest Rate Risk

The Association has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of Credit Risk

The Association has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Association's investment in a single issuer.

Elsie Area Fire Association

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
Governmental activities				
Equipment	\$ 74,800	\$ 13,793	\$ -	\$ 88,593
Vehicles	<u>520,000</u>	<u>-</u>	<u>-</u>	<u>520,000</u>
Totals at historical cost	594,800	13,793	-0-	608,593
Less accumulated depreciation for:				
Equipment	(24,379)	(5,403)	-	(29,782)
Vehicles	<u>(310,975)</u>	<u>(19,850)</u>	<u>-</u>	<u>(330,825)</u>
Total accumulated depreciation	<u>(335,354)</u>	<u>(25,253)</u>	<u>-0-</u>	<u>(360,607)</u>
Capital assets, net	<u>\$ 259,446</u>	<u>\$(11,460)</u>	<u>\$ -0-</u>	<u>\$ 247,986</u>

Depreciation expense was wholly allocated to the lone governmental function (public safety) in the amount of current depreciation expense of \$25,253.

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the Association for the year ended March 31, 2006.

	Restated Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006	Amounts Due Within One Year
Capital leases	<u>\$ 118,699</u>	<u>\$ -</u>	<u>\$ 16,480</u>	<u>\$ 102,219</u>	<u>\$ 12,577</u>

Significant details regarding outstanding long-term debt are presented below:

Capital Leases

The Association has entered into a lease purchase agreement, which qualifies as a capital lease for accounting purposes (title transfers to Association) and therefore has been recorded at the present value of future minimum lease payments as of the date of inception. The lease is for the purchase of a tanker. The cost of the tanker under the lease purchase agreement amounted to \$128,464.

Elsie Area Fire Association

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the capital lease is as follows:

Year Ending March 31,	Capital leases	
	Principal	Interest
2007	\$ 12,577	\$ 5,050
2008	13,199	4,428
2009	13,851	3,776
2010	14,535	3,092
2011	15,253	2,374
2012-2013	<u>32,804</u>	<u>2,450</u>
	<u>\$ 102,219</u>	<u>\$ 21,170</u>

NOTE E: RISK MANAGEMENT

The Association is exposed to various risks of loss including commercial property, equipment, liability, and auto for which the Association carries commercial insurance.

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the required supplementary information to the financial statements, the Association's budgeted expenditures have been shown at the functional classification level. The approved budgets of the Association have been adopted at the fund level.

During the year ended March 31, 2006, the Association incurred expenditures in excess of the amounts appropriated as follows:

	Amounts <u>Appropriated</u>	Amounts <u>Expended</u>	<u>Variance</u>
Special Revenue Fund	\$ 85,093	\$ 106,850	\$ 21,757

NOTE G: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, and were the result of a correction of an accounting error. These adjustments were reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	2006	March 31, 2005	Description
Governmental activities			
Long-term debt	\$ -	\$(7,109)	To correct overstated liabilities
Accrued interest	-	(512)	
Net assets - beginning	7,621	-	

REQUIRED SUPPLEMENTARY INFORMATION

Elsie Area Fire Association

Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 91,489	\$ 91,489	\$ 95,189	\$ 3,700
Intergovernmental	-	-	18,000	18,000
Interest	-	-	21	21
Other	-	-	1,655	1,655
TOTAL REVENUES	91,489	91,489	114,865	23,376
EXPENDITURES				
Current				
Public Safety				
Salaries	24,550	24,550	25,041	(491)
Fringe benefits	2,000	2,000	1,881	119
Fuel	1,200	1,200	2,502	(1,302)
Dues and fees	475	475	250	225
Telephone	-	-	1,013	(1,013)
Insurance	17,000	17,000	10,835	6,165
Repairs and maintenance	4,725	4,725	6,981	(2,256)
Other	8,570	8,570	4,756	3,814
Contractual payments	-	-	15,650	(15,650)
Capital outlay	3,970	3,970	15,338	(11,368)
Debt Service				
Principal	16,480	16,480	16,480	-0-
Interest	6,123	6,123	6,123	-0-
TOTAL EXPENDITURES	85,093	85,093	106,850	(21,757)
EXCESS OF REVENUES OVER EXPENDITURES	6,396	6,396	8,015	1,619
Fund deficit, beginning of year	(2,832)	(2,832)	(2,832)	-0-
Fund balance, end of year	\$ 3,564	\$ 3,564	\$ 5,183	\$ 1,619

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

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MANAGEMENT LETTER

Members of the Elsie
Area Fire Association
Elsie, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Elsie Area Fire Association for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Association's internal controls and our discussions with management.

4. The Board should adopt an investment policy to address the disclosure requirements of GASB Statement No. 40 and Michigan Compiled Law (MCL).

During the course of our audit and through discussions with administration, it was noted that the Association has not adopted an investment policy to address the issues required by MCL and the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Association's funds. These resources are necessary for the delivery of the Association's services. Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Association's ability to provide services and meet its obligations as they become due.

We suggest the Board adopt an investment policy as required by MCL that also addresses custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Association's financial statements by GASB Statement No. 40.

2. The Association should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Association may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). This issue had been noted and reported in our audit comments last year.

While this is a common occurrence in small organizations due to the limited number of employees, the Association Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Association review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Association Board provide a greater review and supervision of employee functions and procedures.

3. Budgets should be reviewed and amended when necessary.

As noted in the annual financial statements, the expenditures of the Association exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Association adopt a formal budget for the operating fund and that the Association shall not incur expenditures in excess of amounts appropriated.

We suggest the Association monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated June 23, 2006.

This report is intended solely for the use of management and the Board of the Elsie Area Fire Association and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 23, 2006